

CONSENSUS REVENUES

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This section explains May 1998 consensus revenue estimates for General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue by major revenue sources. Several important assumptions behind the revenue estimates are discussed in the following text. Revenue estimates are reported in **Tables 1 through 5** and **Figures 1 and 2**. Also included are year-end balance estimates and state revenue limit calculations.

General Fund/General Purpose Revenue by Source:

◆ Personal Income Tax

The jobs base is expected to continue to expand, and unemployment rates will remain low. This will lead to sustained growth in Michigan personal income and income tax revenues through FY 1998-99.

Baseline GF/GP income tax revenues increased by 7.0% in FY 1996-97, to \$4,335.6 million. FY 1997-98 income tax revenues are expected to increase 8.1% (to \$4,688.5 million), and 4.0% in FY 1998-99 (to \$4,877.5 million).

Baseline revenues do not include the impact of indexing the personal exemption, the final phase-in of the interest and dividend exemption for seniors, the impact of increasing the personal exemption in 1998, or the impact of increasing the tuition tax credit in 1998.

◆ Sales and Use Taxes

Sustained growth in wage and salary income and sustained low unemployment will combine to increase baseline sales and use tax revenue from \$800.7 million in FY 1996-97 to \$821.7 million in FY 1997-98, and by 4.7% (to \$860.3 million) in FY 1998-99.

Baseline sales tax revenues in each fiscal year are adjusted to reflect changes in the percent of gross sales tax revenue dedicated to local revenue sharing beginning in FY 1996-97.

◆ Single Business and Insurance Taxes

Beginning in FY 1996-97, 100% of Single Business Tax (SBT) revenues accrue to the GF/GP. Net baseline business taxes (SBT plus insurance taxes) were \$2,406.5 million in FY 1996-97, will increase 1.9% (to \$2,452.0 million) in FY 1997-98, and increase by 4.2% (to \$2,555.0 million) in FY 1998-99.

Baseline Single Business Tax revenues alone were \$2,224.2 million in FY 1996-97; they are expected to increase 3.0% (to \$2,290.0 million) in FY 1997-98, and by 3.5% (to \$2,370.0 million) in FY 1998-99.

Baseline estimates do not include the impact of SBT apportionment changes, the new apprenticeship credit, or Capital Acquisition Deduction changes that will affect FY 1997-98 and FY 1998-99 revenue collections.

◆ **GF/GP Baseline Tax Revenues**

Year-end GF/GP baseline tax revenues totaled \$8,172.3 million in FY 1996-97. General Fund/General Purpose baseline tax revenues are expected to increase by 5.0% (to \$8,583.9 million) in FY 1997-98, and by 4.2% (to \$8,942.2 million) in FY 1998-99. Total GF/GP baseline tax revenues include the category labeled "Other Taxes" in **Table 4**.

◆ **Total GF/GP Baseline Revenues**

Total baseline GF/GP revenues include baseline tax revenues and non-tax revenues, and are adjusted to reflect an additional income tax earmarking to the SAF (8.6%) that went into effect for FY 1996-97.

Total GF/GP baseline revenues were \$8,365.9 million in FY 1996-97. General Fund/General Purpose baseline revenues are expected to increase by 4.2% (to \$8,720.8 million) in FY 1997-98, and by 4.0% (to \$9,067.6 million) in FY 1998-99.

◆ **Actual GF/GP Revenues**

Actual GF/GP revenues represent revenues available for expenditure each year. Actual GF/GP revenues are expected to be \$8,592.4 million in FY 1997-98 and are expected to increase 2.1% (to \$8,770.0 million) in FY 1998-99.

TABLE 1

GF/GP REVENUE ESTIMATES (In Millions of Dollars and Fiscal Years)					
	1996-97	1997-98	1998-99	1998-99 over 1997-98 %Change	\$Change
Personal Income Taxes @ 23% SAF Dedication	\$4,335.6	\$4,688.5	\$4,877.5	4.0%	\$189.0
Sales and Use Taxes	800.7	821.7	860.3	4.7%	38.6
SBT and Insurance Taxes	2,406.5	2,452.0	2,555.0	4.2%	103.0
Other Taxes	629.5	621.7	649.4	4.5%	27.7
GF/GP Baseline Tax Revenues	\$8,172.3	\$8,583.9	\$8,942.2	4.2%	\$358.3
Non-Tax Revenue	193.6	136.9	125.4	-8.4%	(11.5)
Total GF/GP Baseline Revenues	\$8,365.9	\$8,720.8	9,067.6	4.0%	\$346.8
Adjustments to Baseline	6.6	(128.4)	(297.6)		
Actual GF/GP Revenues	\$8,372.5	\$8,592.4	\$8,770.0	2.1%	\$177.6

School Aid Fund Revenue by Source:

◆ **Sales and Use Taxes**

Baseline sales tax revenues will increase by 3.5% in FY 1997-98 and by 4.0% in FY 1998-99; baseline use tax revenue to the SAF will increase by 1.1% in FY 1997-98 and by 4.3% in FY 1998-99. Combined sales and use tax revenue dedicated to the SAF equaled \$4,295.5 million in FY 1996-97 and will increase by 3.3% (to \$4,438.9 million) in FY 1997-98, and by 4.1% (to \$4,619.5 million) in FY 1998-99.

◆ **Income Tax**

Beginning in FY 1996-97, 23.0% of gross income tax revenue (\$1,582.9 million) is dedicated to the School Aid Fund. Baseline dedicated income tax revenue will increase 8.6% (to \$1,719.2 million) in FY 1997-98, and by 4.0% (to \$1,788.3 million) in FY 1998-99.

◆ **State Education Tax**

All of the six-mill state education tax (SET) is dedicated to the SAF. Revenues from the SET were \$1,156.1 million in FY 1996-97. SET revenues are expected to increase 5.0% (to \$1,214.0 million) in FY 1997-98, and 4.6% (to \$1,270.0 million) in FY 1998-99.

◆ **Lottery**

Lottery revenues contributed approximately \$587.7 million to the SAF in FY 1996-97. Baseline lottery revenues to the SAF are projected to increase 5.2% (to \$618.0 million) in FY 1997-98, and remain at that same level in FY 1998-99.

Baseline revenue estimates do not include the impact of Detroit Casinos. Additional Casino revenues are not likely to accrue to the SAF until FY 1999-00.

◆ **Tobacco Taxes**

Approximately 64.0% of gross tobacco tax revenue is dedicated to the School Aid Fund. The School Aid Fund received approximately \$350.5 million from tobacco taxes in FY 1996-97.

The demand for tobacco products is expected to decline slowly over the duration of the forecast. Total baseline tobacco tax revenues are expected to decrease to \$336.5 million in FY 1997-98, and to \$325.8 million in FY 1998-99. Actual tobacco tax revenues are expected to be \$16.6 million higher in FY 1998-99 as a result of tax stamps (designed to reduce smuggling). Actual revenues are reflected in baseline adjustments in **Table 2**.

◆ **Transfer Tax**

A tax based on 0.75% of the value of real estate transferred in Michigan took effect on January 1, 1995. Revenues are dedicated to the School Aid Fund. The transfer tax contributed \$192.8 million to the SAF in FY 1996-97, and will contribute \$215.0 million to the SAF in FY 1997-98 and \$205.0 million in FY 1998-99.

◆ **Total SAF Baseline Revenues**

Total SAF baseline revenues were \$8,319.2 million in FY 1996-97. Baseline revenues are expected to increase 4.2% (to \$8,697.1 million) in FY 1997-98, and 3.3% (to \$8,981.9 million) in FY 1998-99.

◆ **Actual SAF Revenues**

Actual SAF revenues represent revenues available for expenditure each year before any GF/GP transfers to SAF. Actual SAF revenues are expected to be \$8,675.7 million in FY 1997-98 and are expected to increase by 3.3% to \$8,964.1 million in FY 1998-99.

TABLE 2

SCHOOL AID FUND REVENUE ESTIMATES (In Millions of Dollars and Fiscal Years)					
Revenues	1996-97	1997-98	1998-99	<u>1998-99 over 1997-98</u>	
				% Change	\$ Change
Sales and Use Tax	\$4,295.5	\$4,438.9	4,619.3	4.1%	\$180.4
Income Tax Earmark (23%)	1,582.9	1,719.2	1,788.3	4.0%	69.1
Lottery	587.7	618.0	618.0	0.0%	0.0
Tobacco Taxes	350.5	336.5	325.8	-3.2%	(10.7)
State Education Tax	1,156.1	1,214.0	1,270.0	4.6%	56.0
Transfer Tax	192.8	215.0	205.0	-4.7%	(10.0)
Liquor Excise and Specific Taxes	153.7	155.5	155.5	0.0%	0.0
Baseline SAF Revenues	\$8,319.2	\$8,697.1	\$8,981.9	3.3%	\$284.8
Adjustments to Baseline	5.4	(21.4)	(17.8)		
Actual SAF Revenues (less GF/GP Transfer)	\$8,324.6	\$8,675.7	\$8,964.1	3.3%	\$288.4

Consensus Revenues

Estimates of Year-End Balances:

Table 3 reports House Fiscal Agency estimates of year-end balances for GF/GP, the SAF, and the BSF.

- ◆ Fiscal year 1995-96 and 1996-97 year-end balances for GF/GP and the SAF are those reported in the Comprehensive Financial Annual Report (CAFR).
- ◆ Fiscal year 1997-98 GF/GP and SAF estimates are based on year-to-date appropriations and HFA revenue estimates.
- ◆ Budget Stabilization Fund estimates are based on current FY 1997-98 balance estimates provided by the Michigan Department of Treasury and HFA estimates of future deposits and interest earned.

The FY 1996-97 GF/GP year-end balance carries forward as a beginning balance in FY 1997-98. However, pursuant to 1997 PA 144, any year-end balance in GF/GP for FY 1997-98 and thereafter will be transferred to the BSF.

School Aid Fund revenues are restricted; hence, any year-end balance is carried forward to the subsequent year.

TABLE 3

YEAR-END BALANCE ESTIMATES (In Millions of Dollars and Fiscal Years)			
	1995-96	1996-97	1997-98
General Fund/General Purpose	\$91.3	\$53.3	\$0.0
School Aid Fund	120.2	193.1	163.4
Budget Stabilization Fund	1,153.6	1,152.4	1,029.6

Budget Stabilization Fund Year-End Balances:

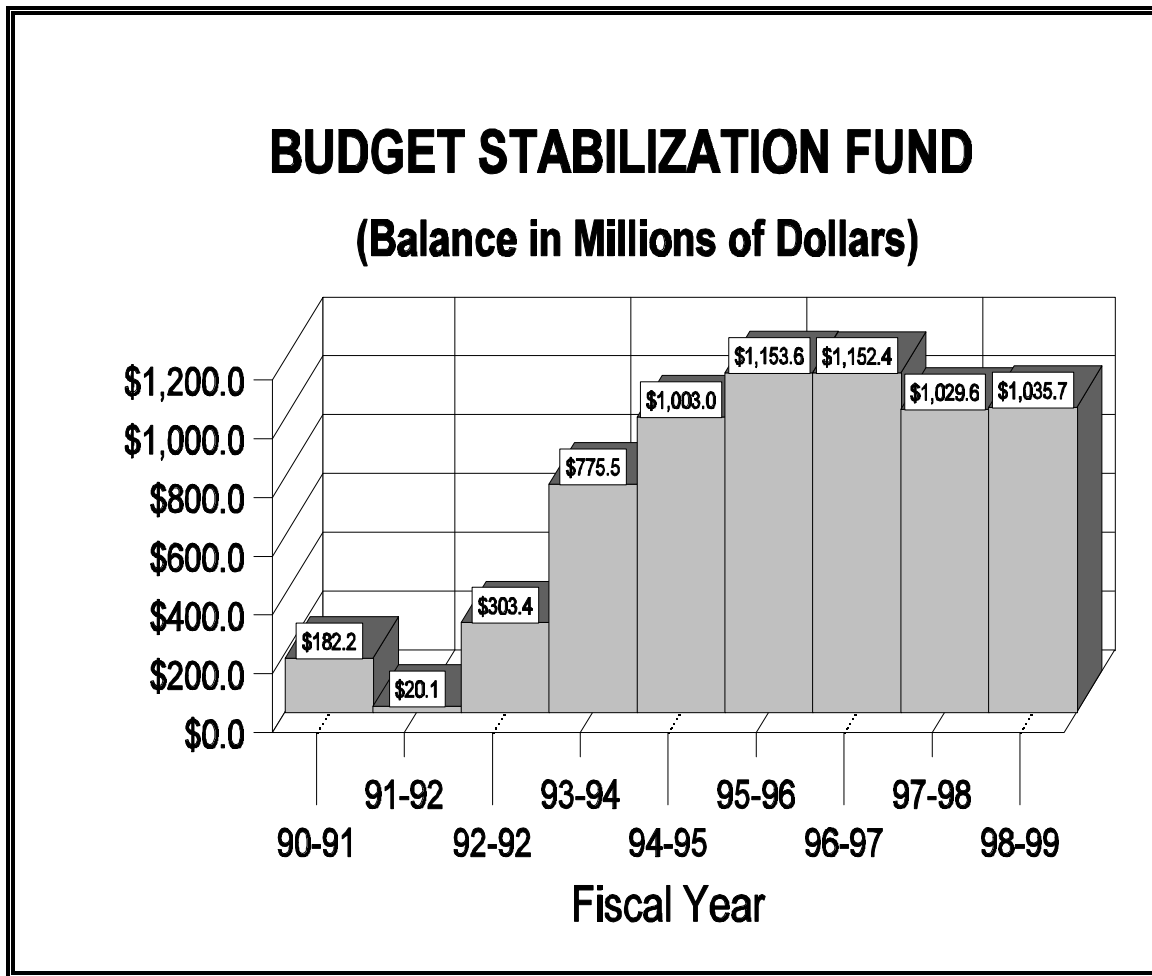
Table 4 reports a history of BSF deposits, withdrawals, and interest earnings from FY 1989-90 to FY 1996-97. It also includes HFA estimates of deposits, expected interest earnings, and year-end balances for FYs 1997-98, and 1998-99.

A complete list of BSF historical data is available from the HFA upon request.

TABLE 4

BUDGET STABILIZATION FUND (In Millions of Dollars)				
Fiscal Year	Deposits	Withdrawals	Interest Earned	Balance
1989-90	\$0.0	\$69.9	\$35.8	\$385.1
1990-91	0.0	230.0	27.1	182.2
1991-92	0.0	170.1	8.1	20.1
1992-93	282.6	0.0	0.8	303.4
1993-94	460.2	0.0	11.9	775.5
1994-95	260.1	90.4	57.7	1,003.0
1995-96	91.3	0.0	59.3	1,153.6
1996-97	0.0	69.0	67.8	1,152.4
1997-98*	24.2	212.0	65.0	1,029.6
1998-99*	17.0	73.7	62.8	1,035.7
* Estimates				

Figure 12



NOTE: FYs 1997-98 and 1998-99 are estimates.

Compliance with the State Revenue Limit:

Table 5 reports HFA estimates of the state revenue limit provided for in Article IX, Section 26, *Constitution of the State of Michigan*, and estimates of total state revenue collections subject to the state revenue limit. As provided for in the *Constitution*, the revenue limit is calculated as 9.49% of total state personal income in the previous full calendar year prior to the fiscal year in which the revenues are measured, as estimated by the Bureau of Economic Analysis, United States Department of Commerce.

TABLE 5

COMPLIANCE WITH THE STATE REVENUE LIMIT (In Millions of Dollars and Fiscal Years)			
Revenue Limit Calculations	1996-97	1997-98	1998-99
Personal Income			
Calendar Year	CY 1995	CY 1996	CY 1997
Amount	\$228,369	\$239,330	\$250,308
X Limit Ratio	9.49%	9.49%	9.49%
State Revenue Limit	\$21,672.2	\$22,712.4	\$23,754.2
Total Revenues Subject to Revenue Limit	20,793.6	21,500.6	22,167.1
Amount Under (Over) State Revenue Limit	\$878.6	\$1,211.8	\$1,587.1

Consensus Revenues

Implications of Exceeding the State Revenue Limit:

Article IX, Section 26, *Constitution of the State of Michigan*, provides that:

. . . For any fiscal year in the event that Total State Revenues exceed the limit established in this section by 1% or more, the excess revenues shall be refunded pro rata based on the liability reported on the Michigan income tax and single business tax (or its successor tax or taxes) annual returns filed following the close of such fiscal year. If the excess is less than 1%, this excess may be transferred to the State Budget Stabilization Fund. . . .

Furthermore, the state is prohibited from spending any current-year revenue in excess of the limit established in Section 26 by Article IX, Section 28.

Figure 2

